

February 20, 1996

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TO: LESTER SNOW  
FR: DAVID FULLERTON  
RE: CRITICAL CALFED PROGRAM ISSUES

You asked for a listing of critical issues (technical/ political/ financial) of concern to the Program. Here are a few thoughts.

1. *Operational Assurances.* For any alt. w/ expanded Delta transfer, the Program will need to propose mechanisms to give all sides confidence that the facilities will be operated as promised. Delta farmers have the highest sensitivity, it seems -- they appear unwilling to accept any institutional assurances at all -- only physical. The enviros are the next most sensitive, but given various guarantees, expanded markets, and an environmental water management agency, they can probably be satisfied. The exporters are also sensitive to concerns about changed future operations resulting from new listings. They can probably be satisfied given measures to reduce their exposure to this problem (e.g., expanded Ops Group responsibility, environmental agency responsibility, etc.).

2. *Supply/ Demand Goals.* The original Program notion was that the closer supply and demand are matched, the better the alternative. Increasingly, users are rejecting this syllogism. Rather, they would prefer to say, "the more water is potentially available, the better the alternative." They do not want the Program to solve their supply problems, only to remove the Delta bottleneck. Then they will pursue storage and market opportunities. Their concerns appear to be three: (1) The cost and complexity of a full solution reduce the chances of success; (2) Export agriculture is afraid that it will be charged for surface storage against its will; and (3) Export agencies fear that the Program could become embroiled in arguments over demand projections and the ability of demand management to meet future supplies (in return for focusing solutions on supply side, they are willing to commit to more enforceable BMPs and EWMPs.)

Ironically, enviros are more favorable to storage, because it is an effective way to shifting diversion timing and boosting critical flows. Many enviros would like to see the Program get into a full supply/demand analysis. However, given enforceable BMPs, and assurances that environmental flows will be generated, they will probably not insist upon it.

This implies that storage should be incorporated into alternatives as needed to generate shifts in diversions or environmental flows, but not to boost baseline supplies for users.

Note, however, that this approach may increase concerns by upstream interests that the new water will be taken from them in the future.

3. *Cost.* Supply facilities are easy to fund. If they are cost effective, then the agencies will probably agree to fund them. The problem is funding everything else -- habitat restoration, levees, water quality elements. We might well take the position that these are all part of the package and that agencies should look at overall costs and benefits, not just

supply element costs and benefits. Nevertheless, this will become an area of dispute, unless significant amounts of public funding (well beyond SB 900) can be found. He who pays the piper calls the tune. If we expect users to fund environmental and levee improvements, then they will push hard to spend the least amount possible and to emphasize areas which provide benefits to them. Thus, I would expect questions to be raised about the value of spending huge amounts of money on levee protection for purposes other than protecting export supplies. Similarly, users will be skeptical about specific habitat restoration alternatives. Rather, they will prefer more flexible restoration alternatives (with significant user control over spending). Where specifics are given, they will want money to be focussed on areas which could ease their regulatory problems (e.g., on endangered species).

4. *Upstream interests.* I expect major concerns to be raised by area of origin interests asserting that economic and environmental interests in the cities are treating rural areas like colonies -- extracting resources, leaving the locals impoverished. These concerns will not be raised so much by farmers (who, after all, control the resource and stand to benefit from active markets and active groundwater management -- "I had a farm in Africa..."), but by local boards of supervisors, and others, on behalf of rural communities. That is, the major fault line this time around might not be northern urban versus southern, but upstream versus the rest.

The proposal (primarily by exporters) to leave the sources of water unspecified will actually heighten concerns within this group because they will conclude that the main target for new yield is the Sacramento Valley, that fallowing transfers are the cheapest, and therefore, that local economies will be hard hit by this alternative. To deal with their concerns, new supplies the Program could explicitly develop new supplies (e.g., off stream storage) or water transfer rules which provide for some sort of local excise tax.

5. *Land Use.* Most alternatives will shift a lot of agricultural land into other uses -- storage, conveyance, habitat. Will the Program attempt to use eminent domain? If not, it will have a difficult time acquiring the land it needs. If so, then the Program can expect to see local opposition, particularly once more specific alternatives are generated.